Allocated, Unallocated and Segregated: what do you actually own?

All assets need to be held somewhere, with documentary proof of ownership.

Ownership of financial assets was historically evidenced by certificates but is now typically demonstrated by digital means and managed through custodial arrangements. Real estate is a physical asset, but evidence of ownership is commonly in digital form via a central register, making the transfer of immovable property sensitive to registry governance.

Physical bullion is different due to its portability, and because in its raw state it is indistinguishable from other bullion.

Considering gold, there are two principal ways to gain exposure:

- **Paper gold** which provides exposure to the price of gold but not its ownership. Exposure is usually evidenced by a digital contract or token, which creates third party reliance.
- **Physical gold** which if held in the right form enables both ownership and exposure to the price of gold. If held in the wrong form, it may only provide exposure to price and not confer ownership, creating counterparty exposure which may not be evident in marketing materials and small print. Evidence of ownership is proved by a detailed sales receipt referencing the bullion's unique identifiers which align with custodial receipts and/or by physical possession or control.

There are a variety of ways in which physical bullion can be stored with a third party, which we set out below:

1. **Together with the gold of others or pooled (unallocated) but not identified as owned by any specific individual.**

   The bullion is usually owned by the promoter or storage facility, with customers holding a digital claim on a portion of it.

   As the gold is an asset of the facility or third party, it is held on their balance sheet and the customer with a claim is a creditor (usually unsecured). The purchaser has a liability which can only be satisfied if the actual owner is able to do so.

   The customer typically has a digital certificate detailing exposure and sometimes granting the right to withdraw gold from the pool by physical delivery.

   Depending on the specific programme, a fabrication fee may be necessary to accommodate physical withdrawal, creating reliance on a third party that could delay delivery and securing ownership.

   Until the gold is withdrawn and in your own physical possession, you do not really own it. This is a low cost and common structure used by wealth mangers and banks. It is equivalent to a bank deposit where the bank holds deposited currency as its own asset and the depositor is an unsecured creditor.

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Like a bank deposit, there is no guarantee that all gold obligations are fully covered or unencumbered, so there may be considerable leverage. This could result in default, a loss of exposure to the gold price and a total loss of invested capital, even with high gold prices.

This approach enables fractional gold holdings with many promoters allowing for conversion into standardised products once accumulated grams are sufficient. For smaller investors, this is a useful way of saving before taking ownership, while benefiting from low or often zero storage fees. Importantly, this arrangement does not constitute real personal ownership until the gold is withdrawn, a detailed sales receipt has been issued and separate custodial arrangements have been made.

Gold held in such structures is vulnerable to a series of abuses, many of which can be hidden in small print. It may be difficult to ensure the gold is not subject to rehypothecation, lending out, collateralisation or other activities that could compromise its value. Such activities remove the core utility of gold and instead create a liability.

Some argue that for those who never want physical delivery, this can be a useful way to gain exposure as fabrication costs are minimised and premiums and storage costs remain low.

Vaultonomics does not accept this argument and considers that the trade-offs for lower fees are not worth the additional risks. Therefore, we NEVER support the use of unallocated pooled facilities for long term bullion holdings or for those looking for sustainable protection through ownership.

2. Allocated but held together with the gold of others in a common part of the facility.

The gold is owned by the customer and described in terms of its form, size and weight but it is not individually sealed for a specific owner.

Ownership is evidenced by a sales document describing the core features of the gold product, which can usually be withdrawn according to the rules of the facility.

Consider 100 1oz UK Gold Britannia coins belonging to one individual, that are held with a number of other one-ounce Britannia coins belonging to other individuals. The 100 specific coins that were deposited may not be the same ones later withdrawn by the customer, although they will be of exactly the same quality, weight or grade.

This begs the question: if specific gold is not fully allocated to a unique owner, who really owns it? This is a common cost-effective arrangement but may involve avoidable complications in certain situations or regimes including potential counterparty considerations and legal interpretations.

Audits and transparency give peace of mind on full backing, but an inability to identify specific property as your own does not feel like ownership to us.

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3. **Fully allocated, uniquely identified as the property of each holder and sealed in tamper proof containers, but held together with the gold of others.**

Each holder can evidence their specific holding and exclusive ownership by a statement or warehouse certificate showing the bar number or unique parcel identifier. The actual products put into the facility will be the same ones taken out.

The facility acts in a safe keeping or custodial capacity with a contract detailing the terms of that role, which is ideally siloed from the purchase process.

As the gold is identified through unique means, the fact it is held together with others means it is almost identical to segregated material. For small and medium sized investors this is a pragmatic and often affordable approach.

4. **Fully allocated and segregated from other holders, gold is held in its own separate part of the facility with dedicated shelf space or in exclusive sealed boxes/cages.**

Like above, the gold is identified by unique identifiers and evidenced by a warehouse receipt. The gold you put in is exactly the same gold you take out.

This is unambiguous ownership with the highest level of integrity in handling, storage and audit verification. It is also the most transparent approach, suitable for family offices and those with fiduciary responsibilities.
As this type of storage involves more rigorous oversight and handling, it is usually (absent volume discounts) the most expensive storage option.

Large minimum holding limits or longer contracts may be demanded by the facility, making this most suitable for larger investors.

If bullion is simply stored in a segregated form without itemised evidence of specific bar/coin ownership, the benefits are pointless.

Fully allocated and segregated is the best approach, but for most holders fully allocated options as discussed in point 3, are usually sufficient.

Unless you know your specific bars' or coins' unique identifiers and can freely remove them from the facility, you may not really own anything.

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Storage with a third party, should ideally follow the fully allocated approach using parcels or itemised ownership schedules in facilities that pass detailed due diligence and benefit from robust insurance arrangements. This has almost all the benefits of the fully allocated segregated approach, often at a lower price. It is also the most popular approach for smaller holdings and is most robust when storage and dealing functions are separated but remain within a common chain of integrity. For very large holders fully allocated segregated storage is our preferred option.

All approaches to storage rely on the integrity of the storage facility and the probity of the jurisdiction, making detailed and specific due diligence necessary. Decisionmakers can change rules or break laws, and even the most ardent supporter of property rights will yield to the power of the state (e.g. Swiss banking secrecy). Considering the incentives of the relevant jurisdiction and the robustness of its institutions is critical. All bullion storage facilities are subject to some degree of government oversight, so complete privacy is never guaranteed.

For storage advisory enquiries, please reach out to https://vaultonomics.com/contact/

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In most jurisdictions physical bullion is Not Regulated as a financial asset by the FCA, FINMA, SEC or any other regulatory body and consequently investors do not usually have access to compensation schemes like the Financial Ombudsman Service or the Financial Services Compensation Scheme etc. Different jurisdictions are subject to varying levels of regulation and protections. **Independent advice should always be taken before investing, moving or changing storage arrangements.**

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